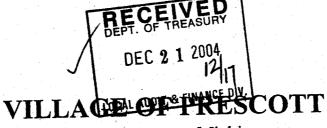
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Ogemaw County, Michigan 65-3010

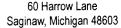
FINANCIAL STATEMENTS
June 30, 2004



ued under P.A. 2 of 1968, as am	ended. Village Other	Local Government Name VILLAGE OF PRESCOTT			OGEMAW	
udit Date	Opinion Date 10/7/04		Date Accountant Report Submitte	ed to State:	SEARI	VED
id 130/04 The have audited the finant coordance with the State inancial Statements for Coordance (130 Coordance)	cial statements of this	local unit of g mental Accou s of Governme	povernment and rendered a noting Standards Board (Conting Michigan by the Mich	an opinion on fin GASB) and the gan Department	ancies targeth Uniform Reportin of Treasury. 2	Febre Parked in Format for 2004
lo affirm that:						
. We have complied with	h the <i>Bulletin for the A</i>	udits of Local U	Inits of Government in Micl	ngan as revised.	LOCAL AUDIT &	FINANCE DIV
. We are certified public	accountants registere	d to practice in	Michigan.		u as in th	no report of
Ve further affirm the follow omments and recommen	ving. "Yes" responses l dations	have been disc	closed in the financial state	ments, including	the notes, or in the	ne report or
ou must check the applic	able box for each item	below.			ial atatamani	te
⊤Yes 📝 No 1. C	ertain component units	s/funds/agencio	es of the local unit are excl	uded from the fin	anciai statemeni	
	here are accumulated	deficits in one	e or more of this unit's un	reserved fund ba	lances/retained	earnings (P.
_	imended).		nce with the Uniform Acco			
	equirements, or an ord	ler issued unde	ditions of either an order er the Emergency Municipa	II LOAN / NO.		
	as amended [MCL 129	.91], or P.A. 5	nents which do not comply 5 of 1982, as amended [MC)_ 00.110=j/		
Yes 🕢 No 6.	The local unit has beer	n delinquent in	distributing tax revenues th	nat were collected	I for another taxi	ing unit.
☐ Yes ✓ No 7.	pension benefits (norn credits are more than t	nal costs) in tr the normal cos	stitutional requirement (Art ne current year. If the plan t requirement, no contributi	ions are due (paid	d during the year	·).
	(MCL 129.241).		d has not adopted an ap			
Yes No 9.	The local unit has not	adopted an inv	vestment policy as required	by P.A. 196 of 1	997 (MCL 129.95	5).
				Enclosed	To Be Forwarded	Not Required
We have enclosed the			105.06	✓		
The letter of comments			AGE 36			1
Reports on individual fe	ederal financial assistar	nce programs (program addits).			1
Single Audit Reports (A	.SLGU).					✓
Certified Public Accountant (I	Firm Name)					
BERTHIAUME & C Street Address	OMPANY, CPAS		City		State ZIP 48	603
60 HARROW LANI	=		SAGINAW		Date	

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INDEPENDENT AUDITORS' REPORT

To the Village Council Village of Prescott, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Prescott, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Prescott, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Prescott, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2004, on our consideration of the Village of Prescott's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

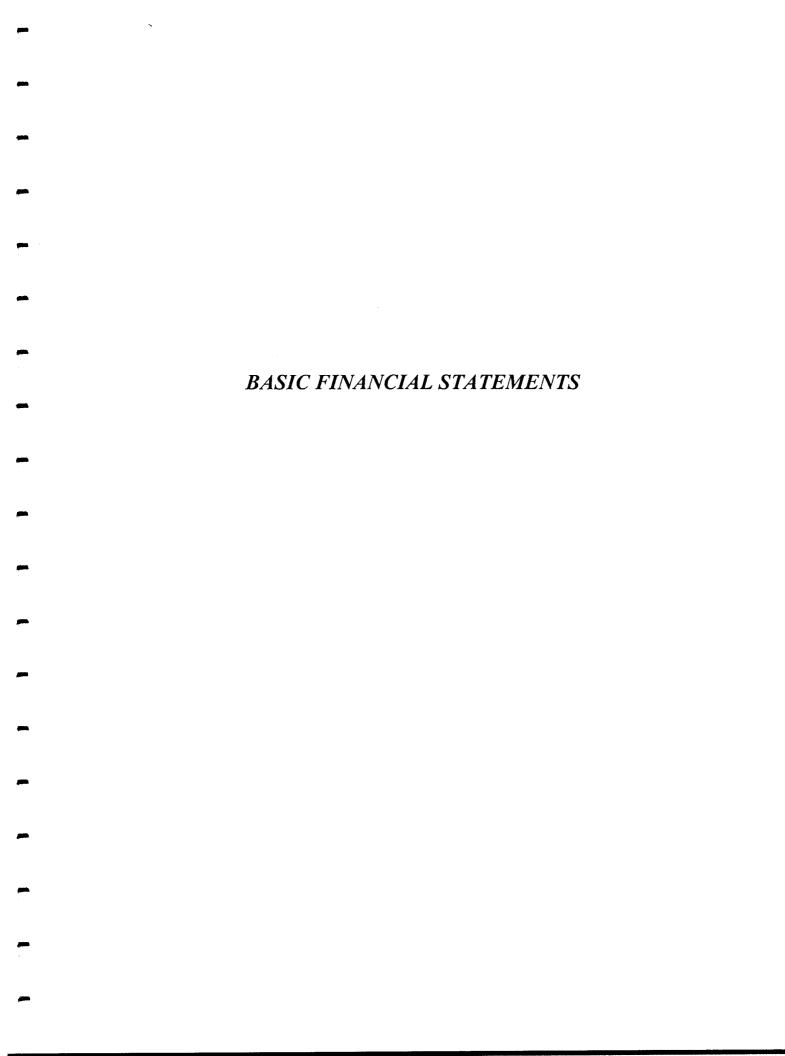
The budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Prescott's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

October 7, 2004

Berthiaum & Co.



STATEMENT OF NET ASSETS

	Primary Government			
	Government	al Business-type		
	Activities	Activities	Total	
Assets:				
Cash and cash equivalents	\$ 26,600		\$ 66,644	
Receivables	21,07	22,857	43,928	
Capital assets:				
Nondepreciable capital assets	74,32		92,327	
Depreciable capital assets, net	73,123	964,999	1,038,121	
Total assets	195,120	1,045,900	1,241,020	
Liabilities:				
Accounts payable				
and accrued expenses	2,87	9,965	12,838	
Long-term liabilities:				
Due within one year	15,44		15,448	
Due in more than one year	75,00	<u>-</u>	75,000	
Total liabilities	93,32	9,965	103,286	
Net assets:				
Invested in capital assets,				
net of related debt	72,67	4 982,999	1,055,673	
Unrestricted	29,12	52,936	82,061	
Total net assets	\$ 101,79	9 \$ 1,035,935	\$ 1,137,734	

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

		_		Pr	ograi	n Revenu	es		
	Expense	es		rges for	Gra	erating ints and ributions	Gr	Capital ants and tributions	Net (Expense) Revenue
Functions/Programs PRIMARY GOVERNMENT: Governmental activities: General government Public works Recreation and culture Interest on long-term debt Total governmental activities	100, 4, 4.	947 700 ,476 ,939 ,062	\$	25 - - - - 25	\$	50,295 100 - 50,395	\$	28,774	\$ (23,922) (21,631) (4,376) (4,939) (54,868)
Business-type activities: Sewer		,253		35,915 35,915			. —	<u>-</u>	(8,338) (8,338)
Total business-type activities Total primary government		3,253 3,315	<u>\$</u>	35,940	<u>\$</u>	50,395	<u>\$</u>	28,774	\$ (63,206)

continued

	Primary Government			
	Government Activities	Business- al type Activities	Total	
Changes in net assets				
Net (Expense) Revenue	\$ (54,86)	8) \$ (8,338)	\$ (63,206)	
General revenues:				
Taxes:				
Property taxes, levied for general purpose	17,82	-	17,828	
Grants and contributions not restricted to				
specific programs:				
State-shared revenue - sales tax	25,20		25,208	
Unrestricted investment earnings	19		433	
Miscellaneous	85		1,054	
Special item - gain on sale of capital asset	12,50	7 -	12,507	
Transfers	1	1(11)	-	
Total general revenues, special items and transfers	56,60	2 428	57,030	
Change in net assets	1,73	4 (7,910)	(6,176)	
Net assets, beginning of year	100,06	5 1,043,845	1,143,910	
Net assets, end of year	\$ 101,79	9 \$ 1,035,935	\$ 1,137,734	

GOVERNMENTAL FUNDS

BALANCE SHEET

	_	General Fund		Major Street Fund		Local Street Fund		onmajor vernmental Funds	Go	Total vernmental Funds
Assets: Cash and cash equivalents	\$	7,046	\$	8,053	\$	11,200	\$	301	\$	26,600
Taxes receivable	Ψ	4,009	Ψ	-	Ψ	-	•	-	•	4,009
Accounts receivable		-		200		-		_		200
Due from other governmental units		8,290		6,814		1,758		-		16,862
Due from other funds						9,191		-		9,191
Total assets	\$	19,345	<u>\$</u>	15,067	\$	22,149	<u>\$</u>	301	\$	56,862
Liabilities and Fund Balances:										
Liabilities:										
Accounts payable										
and accrued expenses	\$	978	\$	-	\$	-	\$	-	\$	978
Due to other funds		-		9,191				-		9,191
Total liabilities		978		9,191				-		10,169
Fund balances:										
Unreserved:										
Undesignated, reported in:										
General fund		18,367		-		-		-		18,367
Special revenue funds		-		5,876		22,149		301		28,326
Total fund balances		18,367		5,876		22,149		301		46,693
Total liabilities and fund balances	<u>s</u>	19,345	\$	15,067	\$	22,149	\$	301	\$	56,862

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

Total fund balances for governmental funds		\$ 46,693	
Total net assets reported for governmental activities in the statement of of net assets is different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.			
Governmental capital assets	163,216		
Less accumulated depreciation	(15,767)	147,449	
Interest payable in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds.		(1,895)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:			
Note payable	(448)		
Bond payable	(90,000)	(90,448)
Net assets of governmental activities		\$ 101,799	

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Governmental Funds	Total Governmental <u>Funds</u>
Revenues:					
Property taxes	\$ 17,829	\$ -	\$ -	\$ -	\$ 17,829
Federal grants	28,774	-	-	-	28,774
State grants	25,208	39,999	10,296	-	75,503
Interest and rents	132	66	17	1	216
Other revenue	13,164	200	_	100	13,464
Total revenues	85,107	40,265	10,313	101	135,786
Expenditures:					
Current	02.047				22.047
General government	23,947	-	- 5 024	-	23,947
Public works	29,526	63,247	5,034	-	97,807
Recreation and culture	4,477	-	-	•	4,477
Capital outlay	38,653	-	-	-	38,653
Debt service	2 (00	2 946	7 154		12 600
Principal	2,688	2,846	7,154 3,430	-	12,688 5,141
Interest and charges	341	1,370	3,430		3,141
Total expenditures	99,632	67,463	15,618	-	182,713
Excess (deficiency) of					
revenues over expenditures	(14,525)	(27,198)	(5,305)	101	(46,927)
Other financing sources (uses):					
Transfers in	11	(40.000)	10,000	-	10,011
Transfers out		(10,000)			(10,000)
Total other financing					
sources and (uses)	11	(10,000)	10,000	<u> </u>	11
Net change in fund balances	(14,514)	(37,198)	4,695	101	(46,916)
Fund balances, beginning of year, as restated	32,881	43,074	17,454	200	93,609
Fund balances, end of year	\$ 18,367	\$ 5,876	\$ 22,149	\$ 301	\$ 46,693

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds		\$ (46,916)
Total change in net assets reported for governmental activities in the statement of activities is different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.		
Capital outlay	38,613	
Less depreciation expense	(2,853)	35,760
Repayments of principal on capital leases and contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.		12,688
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absences payable		
Change in accrued interest on leases and loans payable		 202
Change in net assets of governmental activities		\$ 1,734

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

	Enterprise Fund
	Sewer Fund
Assets:	
Current assets:	6 40.044
Cash and cash equivalents	\$ 40,044
Accounts receivable	22,857
Total current assets	62,901
Noncurrent assets:	
Capital assets:	
Nondepreciable capital assets	18,000
Depreciable capital assets, net	964,999
Total noncurrent assets	982,999
Total assets	1,045,900
Liabilities	
Current liabilities:	
Accounts payable and accrued expenses	9,965
Total current liabilities	9,965
Total liabilities	9,965
Net assets:	
Invested in capital assets, net of related debt	982,999
Unrestricted	52,936
	
Total net assets	\$ 1,035,935

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	Enterprise Fund Sewer
	<u>Fund</u>
Operating revenues:	¢ 24.245
Charges for services Penalties	\$ 34,345 1,570
Other	197
Total operating revenues	36,112
Operating expenses:	
Personnel	869
Supplies	460
Contracted services	12,410
Telephone	644
Insurance Utilities	512 1,518
Repair and maintenance	16
Other services and supplies	1,064
Depreciation Depreciation	21,599
Total operating expenses	39,092
Operating income (loss)	(2,980)
Non-operating revenues (expenses):	
Interest income	242
Interest expense	(5,161)
Total non-operating revenues (expenses)	(4,919)
Net income (loss) before operating transfers	(7,899)
Operating transfers Transfer to other funds	(11)
Total operating transfers	(11)
Net income (loss)	(7,910)
Net assets, beginning of year	1,043,845
Net assets, end of year	\$ 1,035,935

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

	Enterprise Fund
	Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 30,554
Cash payments to employees Cash payments to suppliers for goods and services	(869) (54,463)
Internal activity - payments to other funds	(20,821)
Other receipts	231,064
Net cash provided by operating activities	185,465
Cash flows from non-capital financing activities:	
Operating transfers out	(11)
Net cash provided (used) by non-capital financing activities	(11)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(46,062)
Principal payments	(160,000)
Interest paid	(5,161)
Net cash provided (used) by capital and related financing activities	(211,223)
Cash flows from investing activities: Interest received	242
Net cash provided by investing activities	242
Net increase (decrease) in cash and cash equivalents	(25,527)
Cash and cash equivalents, beginning of year	65,571
Cash and cash equivalents, end of year	\$ 40,044
Operating income (loss):	\$ (2,980)
Adjustments:	
Depreciation	21,599
Decrease (increase) in current assets: Accounts receivable	225,506
Increase (decrease) in current liabilities:	223,300
Accounts payable and accrued expenses	(37,839)
Due to other funds	(20,821)
Net cash provided (used) by operating activities	\$ 185,465

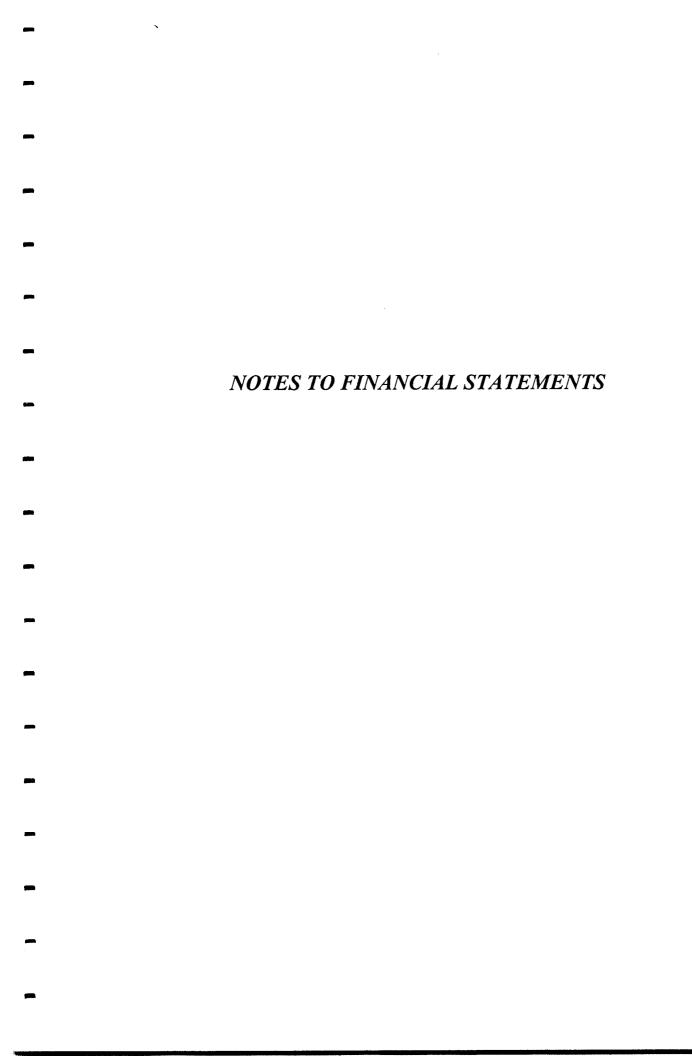
The accompanying notes are an integral part of these financial statements.

VILLAGE OF PRESCOTT

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

		Igency Fund
Assets:		
Cash and cash equivalents	\$	3,153
Liabilities:		
Accounts payable		3,153
Net Assets:		
Unrestricted	<u>S</u>	-



NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Prescott conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village. The Village has determined that no entities should be consolidated into its basic financial statements as component units. The criteria for including a component unit includes significant operational or financial relationships with the Village. Therefore, the reporting entity consists only of the primary government.

Basis of Presentation – Fund Accounting:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related

program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

June 30, 2004

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The Village reports the following major governmental funds:

<u>General Fund</u> – The General Fund is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to accounted for in another fund.

<u>Major Street Fund</u> – The Major Street Fund is used to account for the maintenance and construction of the Village's major street system.

<u>Local Street Fund</u> – The Local Street Fund is used to account for the maintenance and construction of the Village's local street system.

The Village reports the following major enterprise funds:

<u>Sewer Fund</u> – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

June 30, 2004

Assets, Liabilities and Equity

<u>Deposits and Investments</u> – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

<u>Receivables and Payables</u> – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

<u>Property Taxes</u> – Properties are assessed as of December 31. The related property taxes are levied on the following July 1, are due on September 14, and become a lien on December 1 with the final collection date of February 14 before they are added to the county tax rolls.

The 2003 taxable valuation of the Village totaled \$3,072,876, on which ad valorem taxes levied consisted of 5.7214 mills for the Village's operating purposes.

The delinquent real property taxes of the Village are purchased by Ogemaw County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

<u>Inventories and Prepaid Expenses</u> —Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid expenses in both government-wide and fund financial statements.

<u>Capital Assets</u> – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if any acquired since July 1, 2003. Buildings and improvements, vehicles, and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and improvements 20-50 years
Vehicles 5-10 years
Equipment 5-15 years

<u>Compensated Absences</u> – It is the Village's policy to not permit employees to accumulate earned but unused sick and vacation days.

<u>Long-term Obligations</u> – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

June 30, 2004

<u>Fund Equity</u> – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Accounting Change

GASB Statement No. 34 - Effective July 1, 2003, the Village implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations has not been included.

Government-wide financial statements prepared using full accrual accounting for all of the Village's activities has been provided.

Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$124,603 previously not reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 have been adjusted by \$12,914 to reflect the historical cost of the Village's capital assets at that date. In addition, the governmental activities column includes notes totaling \$105,233, of which \$103,237 was previously reported in the General Long-term Debt Account Group. The additional \$1,996 is accrued interest on the notes not previously accrued.

June 30, 2004

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the clerk submits to the Village Council a proposed operating budget for the fiscal year upcoming. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Prior to July 1, the budget is legally enacted on a departmental (activity) basis through passage of a resolution by the Village Council.
- 4. Any revision that alters the total expenditures of any fund must be approved by the Village.
- 5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds.
- 6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
- 7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Village incurred expenditures that were in excess of the amounts budgeted, as follows:

	Final Budget	Actual	Actual Over al Budget
General Fund:			
Public works	\$ 7,800	\$ 29,526	\$ 21,726
Recreation and culture	3,000	4,476	1,476
Capital outlay	7,839	38,653	30,814
Special Revenue Funds:			
Major Street Fund - Transfers out	•	10,000	10,000

June 30, 2004

NOTE 3: DEPOSITS AND INVESTMENTS

The Village's deposits at June 30, 2004 are included in the statement of net assets under the following categories:

	Governmental <u>Activities</u>			iness-type ctivities	Total Primary Government		
Cash and cash equivalents	\$	26,600	<u>\$</u>	40,044	\$	66,644	
	\$	26,600	\$	40,044	\$	66,644	

Deposits

The deposits of the primary government were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$63,498, which is covered by federal depository insurance.

Investments

State statutes authorize the Village to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Village.

The Village had no investments during the fiscal year.

June 30, 2004

NOTE 4: CAPITAL ASSETS

Capital assets activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2003 Additions		lditions	Disposals and Adjustments			Balance June 30, 2004	
Governmental activities:					1			
Capital assets not being depreciated								
Land	\$	74,327	\$	-	\$	-	\$	74,327
Capital assets being depreciated								
Buildings and improvements		31,980		-		_		31,980
Vehicles		6,000		38,613		-		44,613
Equipment	*****	12,296				-		12,296
Total capital assets being depreciated		50,276		38,613		-		88,889
Accumulated depreciation		12,914		2,853		-	_	15,767
Net capital assets being depreciated		37,362		35,760		_		73,122
Net governmental activities capital assets	\$	111,689	\$	35,760	\$	-	\$	147,449
Business-type activities:								
Sewer capital assets								
Capital assets not being depreciated								
Land	\$	18,000	\$	-	\$	-	\$	18,000
Capital assets being depreciated								,
Sewer system and treatment plant		1,079,930		46,062		<u> </u>		1,125,992
Total capital assets being depreciated		1,079,930		46,062		•		1,125,992
Accumulated depreciation		139,394	_	21,599		-		160,993
Net capital assets being depreciated		940,536		24,463		-		964,999
Net sewer capital assets		958,536		24,463		-		982,999
Net business-type activities capital assets	\$	958,536	\$	24,463	\$	-	\$	982,999

June 30, 2004

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:		
Public works	<u>\$</u>	2,853
Total governmental activities	\$	2,853
Business-type activities:		
Sewer	\$	21,599
Total business-type activities	\$	21,599

NOTE 5: LONG-TERM DEBT

The Village issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance						0 0				dditions			Due Within One Year	
Governmental activities:																	
Note payable - Truck																	
Amount of Issue - \$12,925																	
Maturing through August 2004	5.66%	\$2,688	\$	3,136	\$ (2,688)	\$	448	\$	448								
General obligation bond - Roads																	
Amount of Issue - \$130,000																	
Major Street (28.4615%) and																	
Local Street (71.5385%)																	
Maturing through August 2009	4.1-5.30%	10,000-15,000		100,000	 (10,000)	_	90,000		15,000								
Total governmental activities				103,136	(12,688)		90,448		15,448								
Business-type activities:																	
Revenue bonds - Series 1994A & B																	
Amount of Issue - \$175,000																	
Maturing through April 2035	4.50%	2,400-8,300		160,000	 (160,000)	_	-		-								
Total business-type activities				160,000	 (160,000)		-		-								
Total governmental and																	
business-type activities			\$:	263,136	\$ (172,688)	<u>\$</u>	90,448	<u>\$</u>	15,448								

June 30, 2004

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended	Governmental Activities						
June 30,	<u>P</u>	Principal		Interest		Total	
2005	\$	15,448	\$	4,186	\$	19,634	
2006		15,000		3,458		18,458	
2007		15,000		2,715		17,715	
2008		15,000		1,958		16,958	
2009		15,000		1,186		16,186	
2010	·-··	15,000		398		15,398	
	\$	90,448	\$	13,901	\$	104,349	

NOTE 6: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business-type activities in the aggregate are as follows:

	Governmental Activities		Business-type Activities
Receivables:			
Property taxes	\$ 4,00	\$; <u> </u>
Accounts	20)	22,857
Intergovernmental	16,86	2 _	-
Total receivables	\$ 21,07	<u> </u>	22,857
Accounts payable and accrued expenses:			
Accounts	\$ 97	3 \$	9,965
Interest	1,89	5	
Total accounts payable and accrued expenses	\$ 2,87	<u>s</u>	9,965

June 30, 2004

NOTE 7: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	A		
Local Street Fund	Major Street Fund	\$	9,191	(I)

(I) Transfer remaining 25% of Act 51 revenue

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year.

Interfund transfers reported in the fund statements were as follows:

Funds Transferred From	Funds Transferred To				
Major Street Fund	Local Street Fund	\$	10,000	(1)	
Sewer Fund	General Fund		11	(II)	
	Total	<u>\$</u>	10,011		

- (I) Transfer 25% of Act 51 revenue
- (II) Reimbursement of expenses paid by General Fund

NOTE 8: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Village manages all of its loss risks with the purchase of commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

June 30, 2004

NOTE 9: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan

The Village currently does not have a pension plan.

Post Employment Benefits

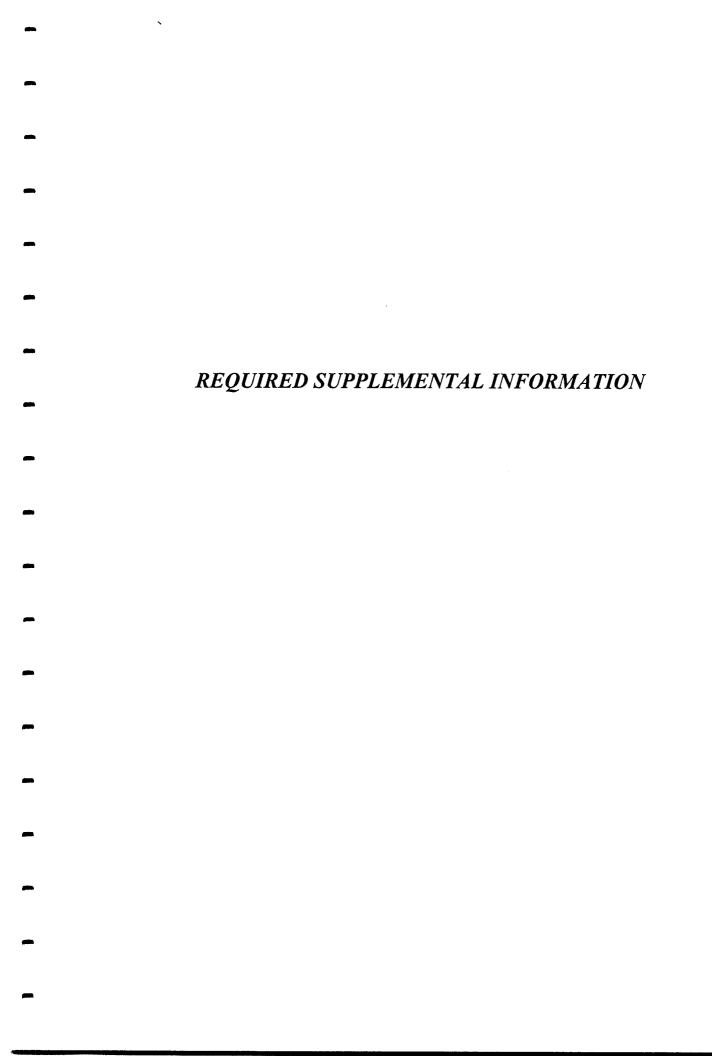
The Village currently does not provide any post employment benefits.

NOTE 10: PRIOR PERIOD ADJUSTMENT

Change in Revenue Recognition

The Village changed its method of accounting for State-shared revenue to coincide with the State distribution periods.

	General Fund				
Fund balance, beginning of year, as previously stated	\$ 27,686				
Prior period adjustment: Recognition of August 2003 distribution of State-					
shared revenue in prior year	5,195				
Fund balance, beginning of year, as restated	\$ 32,881				



BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts					Actual Over (Unde		
	Original			Final	 Actual	Fin	al Budget	
Revenues:								
Property taxes	\$	16,852	\$	16,852	\$ 17,829	\$	977	
Federal grants		-		-	28,774		28,774	
State grants		25,000		25,000	25,208		208	
Interest and rents		375		375	132		(243)	
Other revenue		600		600	 13,164		12,564	
Total revenues		42,827		42,827	 85,107		42,280	
Expenditures:								
General government		16,900		25,013	23,947		(1,066)	
Public works		7,800		7,800	29,526		21,726	
Recreation and culture		3,000		3,000	4,477		1,477	
Capital outlay		2,000		7,839	38,653		30,814	
Debt service								
Principal		12,688		12,688	2,688		(10,000)	
Interest and charges		312		312	 341		29	
Total expenditures		42,700		56,652	 99,632		42,980	
Excess (deficiency) of								
revenues over expenditures		127		(13,825)	 (14,525)		(700)	
Other financing sources (uses):								
Transfers in		-		-	 11		11	
Total other financing sources (uses)		-		-	 11		11	
Net change in fund balance		127		(13,825)	(14,514)		(689)	
Fund balance, beginning of year, as restated	<u> </u>	32,881		32,881	 32,881		-	
Fund balance, end of year	\$	33,008	\$	19,056	\$ 18,367	\$	(689)	

SPECIAL REVENUE FUND – MAJOR STREET FUND

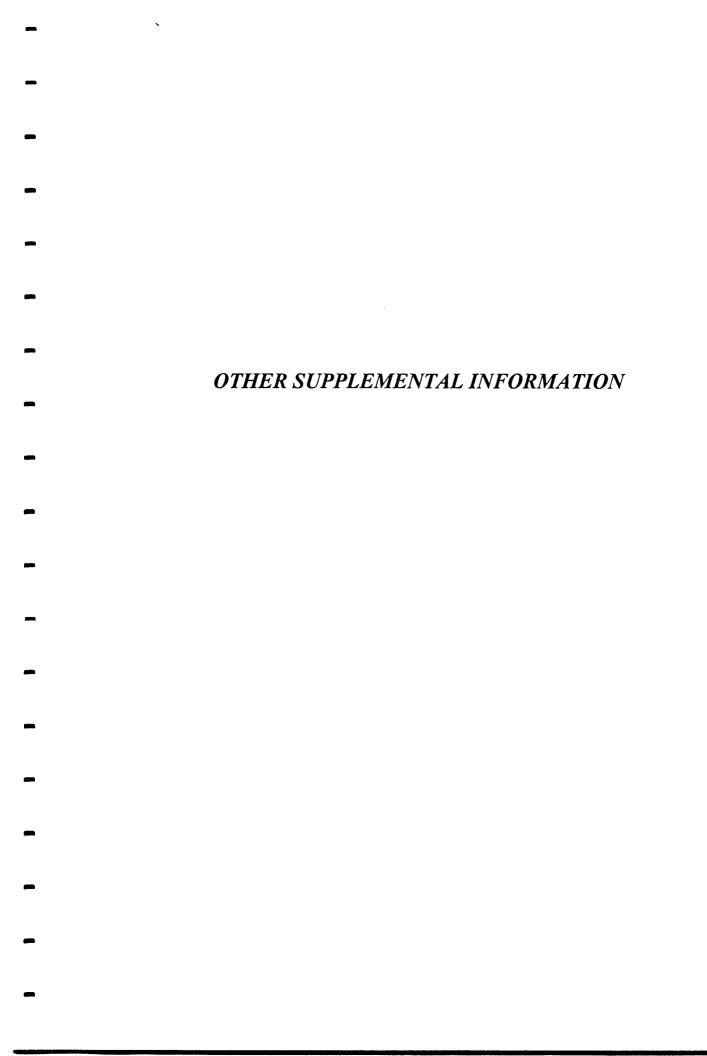
BUDGETARY COMPARISON SCHEDULE

			Actual			
		l Amounts		Over (Under)		
	Original	Final	Actual	Final Budget		
Revenues:						
State grants	\$ 35,000	\$ 36,000	\$ 39,999	\$ 3,999		
Interest and rents	750	750	66	(684)		
Other revenue	-		200			
Total revenues	35,750	36,750	40,265	3,315		
Expenditures:						
Public works	21,850	66,500	63,247	(3,253)		
Debt service						
Principal	3,130	3,130	2,846	(284)		
Interest and charges	1,370	1,370	1,370	•		
Total expenditures	26,350	71,000	67,463	(3,537)		
Excess (deficiency) of						
revenues over expenditures	9,400	(34,250)	(27,198)	6,852		
Other financing sources (uses):						
Transfers out		-	(10,000)	(10,000)		
Total other financing sources (uses)	-	-	(10,000)	(10,000)		
Net change in fund balance	9,400	(34,250)	(37,198)	(3,148)		
Fund balance, beginning of year	43,074	43,074	43,074			
Fund balance, end of year	\$ 52,474	\$ 8,824	\$ 5,876	\$ (3,148)		

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

	Budgeted Amounts					Actual Over (Under)	
	_0	riginal	nal Final		 Actual	Final Budget	
Revenues:							
State grants	\$	8,772	\$	9,381	\$ 10,296	\$ 915	
Interest and rents		150		150	 17	(133)	
Total revenues		8,922		9,531	 10,313	782	
Expenditures:							
Public works		1,800		4,569	5,034	465	
Debt service							
Principal		7,473		7,473	7,154	(319)	
Interest and charges		3,430		3,430	 3,430		
Total expenditures		12,703		15,472	 15,618	146	
Excess (deficiency) of							
revenues over expenditures		(3,781)		(5,941)	 (5,305)	636	
Other financing sources (uses):							
Transfers in	*****	8,750		8,750	 10,000	1,250	
Total other financing sources (uses)		8,750		8,750	 10,000	1,250	
Net change in fund balance		4,969		2,809	4,695	1,886	
Fund balance, beginning of year		17,454		17,454	 17,454	-	
Fund balance, end of year	\$	22,423	<u>\$</u>	20,263	\$ 22,149	\$ 1,886	



DETAILED SCHEDULE OF REVENUES

Revenues:	
Current taxes:	
Property taxes	\$ 17,531
Penalties and interest on taxes	298
	17,829
Federal grants:	
Other	28,774
	28,774
State grants:	
State revenue sharing - sales tax	25,208
•	25,208
Interest and rents:	
Interest	107
Rents	25
	132
Other revenue:	
Sale of capital assets	12,507
Reimbursements	575
Refunds and rebates	82
	13,164
Total revenues	\$ 85,107

DETAILED SCHEDULE OF EXPENDITURES

Expenditures: General Government:	
Mayor and Council:	
Personnel	\$ 4,234
	4,234
Clerk:	
Personnel	1,088
Supplies	113
Other	72
	1,273
Audit:	
Contracted services	
	2,900
Other General Administrative:	
Supplies	51
Telephone	94
Travel/Mileage	179
Dues and memberships	250
Printing and publications	13
Other	47
T.	634
Treasurer: Personnel	1.000
	1,088
Supplies	181
Contracted services Other	259
Other	243
Elections:	1,771
Supplies	24
Contracted services	36
Printing and publications	377 381
puondanono	794
Buildings and Grounds:	
Personnel	1 057
Supplies	1,857
Contracted services	2,087
Insurance	85
Utilities	3,894 769
Repairs and maintenance	492
Other	2,496
	11,680
Attorney:	
Contracted services	661
	661
Total compania consumunant	
Total general government	23,947

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

Public Works:	
Department of Public Works:	
Personnel	\$ 813
Supplies	1,197
Repairs and maintenance	2,741
Other	253
	5,004
Sidewalks:	
Contracted services	16,773
	16,773
Street Lighting:	
Utilities	7,749
	7,749
Total public works	29,526
Recreation and Culture:	
Recreation/Parks:	
Personnel	2,171
Repairs and maintenance	41
	2,212
Library:	
Personnel	134
Utilities	607
Repairs and maintenance	986
Other	538
	2,265
m a transfer to the	
Total recreation and culture	4,477
D-14 G and a	
Debt Service:	
Principal Interest and fees	2,688
interest and rees	341
	3,029
Capital Outlay:	
Public works	38,653
	38,653
Total expenditures	\$ 99,632
. J.m. Japonianuro	9 99,032

VILLAGE OF PRESCOTT

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

	Special Revenue Fund Park Fund
Assets: Cash and cash equivalents	\$ 301
Total assets	\$ 301
Fund Balance: Unreserved	301
Total fund balance	\$ 301

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Special Revenue Fund
	Park <u>Fund</u>
Revenues:	
Interest and rents	\$ 1
Other revenue	100
Total revenues	101
Excess (deficiency) of	
revenues over expenditures	101
Net change in fund balance	101
Fund balance, beginning of year	200
Fund balance, end of year	\$ 301

VILLAGE OF PRESCOTT

FIDUCIARY FUNDS – AGENCY FUND

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

		July 1, 2003		Additions		Deductions		June 30, 2004	
Payroll Withholding Fund									
Assets: Cash and cash equivalents	<u>\$</u>	1,246	\$	21,022	\$	19,115	\$	3,153	
Liabilities: Accounts payable	\$	1,246	\$	21,022	\$	19,115	\$	3,153	



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

MANAGEMENT LETTER

To the Village Council Village of Prescott, Michigan

We have completed our audit of the financial statements of the Village of Prescott for the year ended June 30, 2004, and have issued our report thereon dated October 7, 2004. As part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the Village's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Village's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Village of Prescott taken as a whole. Our study and evaluation disclosed no condition that we believe to be a material weakness. We want to bring the following to your attention however:

This report is intended solely for the use of the Village management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Company

Certified Public Accountants

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October 7, 2004



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Village Council Village of Prescott, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Prescott, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the Village of Prescott, Michigan's basic financial statements and have issued our report thereon dated October 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Prescott, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Prescott, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Company
Certified Public Accountants

October 7, 2004